Local Partnerships

Feasibility and finance of mutuals and social enterprises

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What is Local Partnerships?

Local Partnerships

- Local Partnerships is a joint venture between HMT and the LGA.
- We work with government, local authorities, local public bodies, and the community focussed third sector, to support them to deliver investment in local infrastructure or local services.
- We don’t work for the private sector, and we are not profit maximising.
- We have a core operating principle of sharing intellectual capital and learning across the public and third sectors.
- We operate throughout the investment cycle; from investment appraisal to project or programme delivery to contract management.

Contents

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The journey – key milestones

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Milestone 1

Milestone 2

Milestone 3

Board / SMT approval of commitment to social enterprise development

Board or SMT approval of Business Plan (and transition plan?)

Launch of independent social enterprise

Options appraisal

Business planning

Shadow or transition phase

Business management

- Social enterprise?
- Private enterprise?
- Open tender?
- Integration?

"Business readiness, market readiness and investment readiness"

- Transition planning

- Contractual relationships
- TUPE
- Executive team development
- Board development
- Corporate services negotiations

- Viability
- Sustainability
- Service transformation
- Reinvestment of surpluses
- Social impact

- Success!

1 week to 6 months?

1 to 12 months?

3 to 24 months?

1–5 years for initial contract?

The journey – a business planning work programme

Area of work	Responsible	Timescale	Deliverables	Costs
Mission, strategy and core business				
Commercial and market analysis		3 months?		
Products and services (inc. development)	Lead officer?		Mission statement?	
Resources				
Financial planning				External support?
Management (including risks and compliance)				Internal staff time?
Membership and governance				
Communications and stakeholder management				
Transition planning				

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Funding vs Finance

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- Funding environment…
  - "I want as much of my money to go to actual work as possible"
  - Unpredictable and diverse revenue streams – living from hand to mouth
  - Grants and Full Cost Recovery
  - Arbitrary percentages for overheads
  - Restricted funds
- …has led to an undercapitalised sector?
  - 3 months reserves / cash cover as "the norm" (and derided by some)
  - Community health sector may only have 15 days…

Funding vs Finance (cont'd)

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- Funding income / revenue
  - Contracts, fees / charges, grants, philanthropy, corporate sponsorship, return on investments
- The funding outlook
  - Some positive, some negative

Finance should respond appropriately to the potential for income generation

you would only lend to someone if they could afford to repay and you should only borrow to invest for the future

Types of Finance

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- Debt
  - Types: Loans, bonds, overdrafts, underwriting, mortgages
  - Challenges: debt aversion, appetite of lenders, impact on balance sheet
- Grants
  - Types: development grants, capital grants, feasibility
  - Challenges: restricted funds, clawback
- Equity / quasi-equity
  - Types: equity, revenue participation agreement, annual turnover levy, grants with clawbacks / triggers
  - Challenges: restrictions on dividends, restrictions on ownership

Sources of Finance

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- Government
  - SEIF, Futurebuilders, Communitybuilders, Risk Capital Fund
  - Other future funds?
  - Challenges: annuality, politics, perverse incentives for fund managers and investment approach vs programme model
- Social venture capital
  - Bridges, Baxi Partnership, Big Invest, Triodos?
- Social investors
  - Esmee Fairbairn / other foundations, Impetus Trust, CAN Breakthrough, CAF Venturesome

Sources of Finance (cont'd)

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- Commercial / Specialist lenders
  - Unity Trust Bank, Co-operative Bank, Charity Bank, Triodos Bank, Community Development Finance Institutions (CDFIs), high street banks
- Stakeholders
  - Staff, community, local public body?
- Others
  - Intermediaries: Social Finance, ClearlySo
  - Hot topics: Big Society Bank, Social Impact Bonds, Social Stock Exchange

Conclusions

- Feasibility – planning is key
- Finance – different to funding
  - No silver bullet
  - Seek to diversify income streams
  - Negotiate hard
  - Consider risk capital